



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

*The University of  
Montana*

*For the Fiscal Year Ended  
June 30, 2008*

DECEMBER 2008

LEGISLATIVE AUDIT  
DIVISION

07-10A

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**FINANCIAL AUDITS**

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, was issued January 23, 2008. The Single Audit Report for the two fiscal years ended June 30, 2009, will be issued by March 31, 2010. Copies of the Single Audit Report can be obtained by contacting:

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

December 2008

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on The University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2008. The statements include comparative information for the fiscal year ended June 30, 2007. The statements include component unit financial information as required under Governmental Accounting Standards Board Statement No. 39.

The university requests annual financial audits to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, changes in financial position, and cash flows as of June 30, 2008, and for the fiscal year then ended. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinions for fiscal year 2006-07 are based on the audit we performed in the fall of 2007.

This financial audit is a component of the biennial financial-compliance audit. Financial and financial-related audits are combined for a two-year period to constitute the financial-compliance audit. We issue the financial-related audit every other year and a financial audit every year. The financial-related audit was issued in October 2007.

The University of Montana consists of campuses located in Missoula, Butte, Dillon, and Helena. The campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges and provide a diversity of programs to students.

The University of Montana-Missoula is a comprehensive university offering four-year undergraduate programs along with master and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology that provides a broad range of technical and occupational education and training courses.

Montana Tech of The University of Montana provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology that provides two-year degrees in various occupational and technical programs and core education courses.

The University of Montana-Western provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The University of Montana-Helena College of Technology provides two-year Associate of Science degree programs and a variety of other occupational, technical, and training specialties. These areas include accounting technology, carpentry, computer technology, practical nursing, electronics technology, and welding technology. The college serves as a higher education center by offering certain courses transferable to degree programs offered at other campuses of the Montana University System.

A list of Appointed and Administrative Officials having oversight responsibilities with respect to The University of Montana can be found on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the university's financial statements and accompanying notes. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to the university. Any audit issues identified during this audit have been discussed with university management. The university's response to this report is on page B-1.

We thank President Dennison and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Board of Regents of Higher Education

Stephen Barret, Chair  
 Clayton Christian, Vice Chair  
 Todd Buchanan  
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 Mitch Jessen, Student Regent  
 Janine Pease  
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 Sheila Stearns, Commissioner of Higher Education\*  
 Brian Schweitzer, Governor\*  
 Linda McCullough, Superintendent of Public Instruction\*

\*Ex officio members

### Office of the Commissioner of Higher Education

Sheila Stearns	Commissioner of Higher Education
Sylvia Moore	Deputy Commissioner for Academic and Student Affairs
Mick Robinson	Deputy Commissioner for Fiscal Affairs
Tyler Trevor	Associate Commissioner for Planning
Cathy Swift	Chief Legal Counsel

### The University of Montana

George M. Dennison	President
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### The University of Montana-Missoula

Royce C. Engstrom	Provost and Vice President for Academic Affairs
Robert Duringer	Vice President for Administration & Finance
Daniel J. Dwyer	Vice President for Research & Development
Teresa S. Branch	Vice President for Student Affairs
David Aronofsky	Legal Counsel
Mark Pullium	Director of Business Services

<b>Montana Tech of The University of Montana</b>	W. Franklin Gilmore	Chancellor
	Doug Abbott	Vice Chancellor for Academic Affairs and Research
	Joseph F. Figueira	Associate Vice Chancellor for Academic Affairs & Research/Dean of Graduate School
	Maggie Peterson	Vice Chancellor for Administration & Finance
	John C. Badovinac	Controller/Business Manager
<b>The University of Montana-Western</b>	Richard Storey	Chancellor
	Karl E. Ulrich	Provost and Vice Chancellor for Academic Affairs
	Susan D. Briggs	Vice Chancellor for Administration & Finance/ Student Affairs
	vacant	Controller
<b>The University of Montana-Helena College of Technology</b>	Daniel Bingham	Dean/CEO
	Brandi Foster	Associate Dean for Academic Affairs
	Russ Fillner	Assistant Dean/Fiscal and Plant
	Valerie Lambert	Director of Financial Aid

For additional information concerning on The University of Montana (All Campuses) contact:

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Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2008, and 2007, and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statements of Cash Flows for each of the fiscal years then ended and the University Component Units – Combined Statements of Financial Position as of June 30, 2008, and 2007, and the related University Component Units – Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include The University of Montana Foundation, the Montana Tech Foundation, The University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts for the component units of the university, as noted above are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana and the aggregate discretely presented component units as of June 30, 2008, and 2007, and its changes in financial position and cash flows, where applicable, thereof for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

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The Management's Discussion and Analysis on pages A-3 through A-12 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of The University of Montana. The Supplemental Information – All Campuses on page A-48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

December 8, 2008

**The University of Montana's  
Management's Discussion and Analysis,  
Financial Statements, Notes, and Supplemental Information**



**THE UNIVERSITY OF MONTANA**  
**THE UNIVERSITY OF MONTANA - MISSOULA**  
**THE UNIVERSITY OF MONTANA - WESTERN**  
**THE UNIVERSITY OF MONTANA - HELENA COLLEGE OF TECHNOLOGY**  
**MONTANA TECH OF THE UNIVERSITY OF MONTANA**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2008**

**OVERVIEW**

The University of Montana (University) is comprised of four campuses: The University of Montana - Missoula; The University of Montana - Western; The University of Montana - Helena College of Technology; and Montana Tech of The University of Montana. This discussion addresses the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2008, 2007, and 2006 and should be read in conjunction with the fiscal year 2008 financial statements.

**FINANCIAL HIGHLIGHTS**

**The financial highlights for fiscal year 2008 were:**

- In accordance with the College Affordability Plan (CAP), announced by the Governor in September of 2006, and approved by the 2007 Session of the Montana Legislature, tuition was held at levels in effect for 2007 for all the Campuses of The University of Montana for in-state students.
- Investment earnings decreased by \$5.3 million as compared to the prior year. The decrease can be attributed to the following factors: 1) The fair value of endowed equity investments decreased by \$2.3 million, 2) the yield on investments declined due to lower interest rates in the market place, and 3) about \$12 million from bond proceeds was utilized in new construction.
- Long term obligations and advances from primary government decreased by \$5.4 million. The University issued new long-term debt totaling \$343,000.
- Net assets of The University increased by \$10.8 million as a primary result of capital grants & gifts related to the addition of new facilities construction.

**The financial highlights for fiscal year 2007 were:**

- Tuition rate increases for the year ended June 30, 2007 were 7% for the Western campus 8% for the Missoula campus, 10% for the Montana Tech campus, and 4% for all of our Colleges of Technology. The total tuition revenue increase for all four campuses, net of scholarship allowances, for the 2007 fiscal year was nearly \$8.0 million.

- Investment earnings increased by \$2.8 million over the prior year. The significant increase can be attributed primarily to a \$1.7 million increase in fair value of pooled equity investments. Higher federal funds rates achieved in the prior years were sustained through FY 07, which helped ensure that earnings on interest bearing investments would stay at the same level as in the prior year or increase. An additional factor contributing to the increase in investment earnings was the continued investment of approximately \$16.6 million of Series J bond proceeds, which were held in various interest bearing investments during the year.
- Long term obligations and advances from primary government decreased by \$6.6 million. Significantly, no additional long term debt was issued by the University in FY 07.
- Net assets of the University increased by \$24.1 million attributed primarily to capital grants and gifts of \$5.6 million related to the Donaldson Building addition on the Helena campus and an increase in investment earnings.
- Considerable attention was given during FY 04 to a deficit experienced by the UM Athletics Department at the Missoula campus. A plan was put in place to eliminate the accumulated deficit in the Athletics Department within five years. During FY 07, Athletics continued to exceed the targets established by the plan and eliminated the \$192,626 deficit remaining at June 30, 2006, two years earlier than planned.

## **USING THE FINANCIAL STATEMENTS**

The University's financial statements consist of the following three statements: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated financial statements representing the University's four campuses.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred.
- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.
- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Assets in order of liquidity.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. We show a substantial operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that General Operating Fund expenses be reported as operating, while the State Appropriation - which is General Operating Fund revenue - must be reported as non-operating.

- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student's account. The reason for "netting" these is to keep the University financial statements from "double counting" this revenue and expense.

## STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the financial position of the University at the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University's financial position. A summary of the Statement of Net Assets follows:

<u>Description</u>	<b>For the years ended June 30,</b> <b>(stated in millions)</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total current assets	\$ 79.78	\$ 109.54	\$ 106.40
Total non-current assets	349.31	301.75	283.88
<b>Total assets</b>	<b>\$ 429.09</b>	<b>\$ 411.29</b>	<b>\$ 390.28</b>
Total current liabilities	\$ 51.80	\$ 47.30	\$ 44.49
Total non-current liabilities	172.10	169.59	175.54
<b>Total liabilities</b>	<b>223.90</b>	<b>216.89</b>	<b>220.03</b>
Invested in Capital Assets, Net of Related Debt	153.83	134.28	119.58
Restricted:			
Nonexpendable	19.29	21.07	17.83
Expendable	6.12	5.50	5.54
Unrestricted	25.95	33.55	27.30
<b>Total net assets</b>	<b>205.19</b>	<b>194.40</b>	<b>170.25</b>
<b>Total liabilities and net assets</b>	<b>\$ 429.09</b>	<b>\$ 411.29</b>	<b>\$ 390.28</b>

Events or developments that occurred which had a significant impact on the Statement of Net Assets included:

### **Events or developments which occurred during 2008:**

- Current assets decreased by \$29.8 million due primarily from additions to capital assets from cash reserves of approximately \$11.8 million plus, net investment of about \$18 million in longer-term investments.
- Non-Current assets increased by about \$47.6 million due primarily to additions to capital assets of \$26 million net of an increase to accumulated depreciation of \$16.7 million. An increase in long-term investments of \$18 million also contributed to the increase in non-current assets. The remaining \$3.6 million increase is a combination of various factors including premium purchases on long-term investments, market fluctuations, and reinvestment of interest earnings.
- Non-current liabilities increased primarily as a result of recording other post employment benefits totaling \$7.4 million as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

- Net assets of the University increased by \$10.8 million due primarily to the increase in the investment in capital assets, net of the increase in non-current liabilities related to GASB 45.

**Events or developments which occurred during 2007:**

- Noncurrent assets increased by \$17.9 million primarily from additions to capital assets of \$30.0 million net of an increase to accumulated depreciation of \$15.8 million. A \$1.7 million increase in the fair value of long term investments also contributed to the increase in noncurrent assets.
- Noncurrent liabilities decreased by \$5.9 million due primarily to principal payments of \$6.4 million on outstanding revenue bonds payable, notes payable and advances from primary government. The University did not issue any additional long term debt during FY 07.
- Net assets increased by \$24.1 million due in part to a \$5.6 million of state funding related to the Donaldson Building addition on the Helena campus. In addition, investments increased by \$3.6 million, which included a \$1.6 million federal endowment.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses, and Changes in Net Assets present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. Consistent with the accrual method of accounting, the current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

	<b>For the years ended June 30,</b>		
	<b>(stated in millions)</b>		
<b><u>Description</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006*</u></b>
Operating revenues	\$ 251.08	\$ 244.49	\$ 230.15
Operating expenses	335.25	310.45	294.79
Operating loss	(84.17)	(65.96)	(64.64)
Non-operating revenues (expenses)	83.92	80.21	76.91
Income before other revenues	(.25)	14.25	12.27
Other revenues	11.04	9.90	4.09
Net increase in net assets	10.79	24.15	16.36
Net assets, beginning of year, as adjusted	194.40	170.25	153.89
Net assets, end of year	\$ 205.19	\$ 194.40	\$ 170.25

\*Restated

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2008, 2007, and 2006:

	<b>For the years ended June 30,</b>					
	<b>(stated in millions)</b>					
	<b><u>2008</u></b>		<b><u>2007*</u></b>		<b><u>2006*</u></b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
<b>REVENUES</b>						
Tuition and fees, net	\$ 104.32	29.5%	\$ 99.15	29.0%	\$ 91.17	28.6%
Federal grants and contracts	64.62	18.3%	63.92	18.7%	64.65	20.3%
State & local grants/contracts	9.63	2.7%	9.20	2.7%	8.91	2.8%
Nongovernmental grants/contracts	8.16	2.3%	6.57	1.9%	4.99	1.6%
Facilities and administrative cost allowances	10.60	3.0%	10.46	3.1%	9.79	3.1%
Sales/services of educational departments	13.82	3.9%	14.14	4.1%	12.35	3.9%
Auxiliary enterprise charges	36.24	10.3%	34.33	10.0%	32.76	10.3%
State appropriations	73.53	20.8%	63.45	18.6%	62.07	19.5%
Investment income	2.69	0.8%	8.03	2.3%	5.18	1.6%
Private gifts	13.50	3.8%	14.66	4.3%	15.58	4.9%
Capital grants and gifts	10.82	3.1%	8.15	2.4%	3.06	0.9%
All other sources combined	5.51	1.5%	9.98	2.9%	8.01	2.5%
	<b>\$ 353.44</b>	<b>100.0%</b>	<b>\$ 342.04</b>	<b>100.0%</b>	<b>\$ 318.52</b>	<b>100.0%</b>
<b>EXPENSES</b>						
Compensation and benefits	\$ 212.76	62.1%	\$ 201.17	63.3%	\$ 189.61	62.8%
Other postemployment benefits	7.35	2.1%	-	-	-	-
Other operating expenses	80.55	23.6%	76.08	23.9%	73.79	24.4%
Scholarships and fellowships	17.77	5.2%	16.36	5.2%	14.68	4.9%
Depreciation and amortization	16.81	4.9%	16.84	5.3%	16.71	5.5%
Interest expense	7.42	2.1%	7.44	2.3%	7.37	2.4%
	<b>\$ 342.66</b>	<b>100.0%</b>	<b>\$ 317.89</b>	<b>100.0%</b>	<b>\$ 302.16</b>	<b>100.0%</b>

\* Restated

Comments about specific revenue and expense items are:

**Events or developments which occurred during 2008 include:**

- Tuition and fees increased approximately \$3.2 million, with about \$1.4 million due to higher enrollments, and the remaining increase of about \$1.8 million due to higher tuition rates for out-of-state students.
- Grants and contracts from state, local and private funding sources, and facilities and administrative cost allowances, increased by about \$875 thousand. Funding for research from federal sources continues to be difficult to obtain because of the federal governments' war efforts. As a result, funding from this source increased only slightly by about \$704 thousand in FY 08.

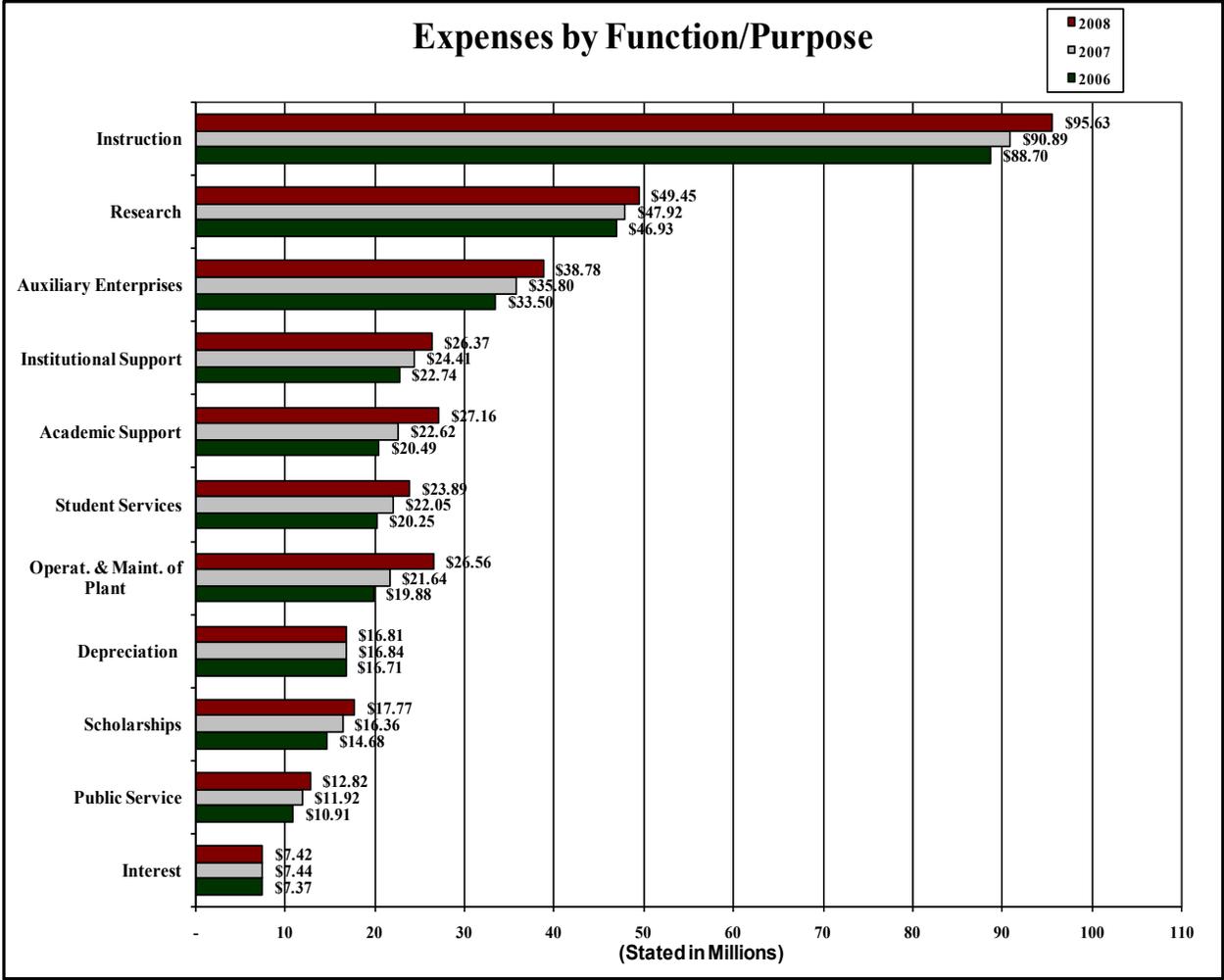
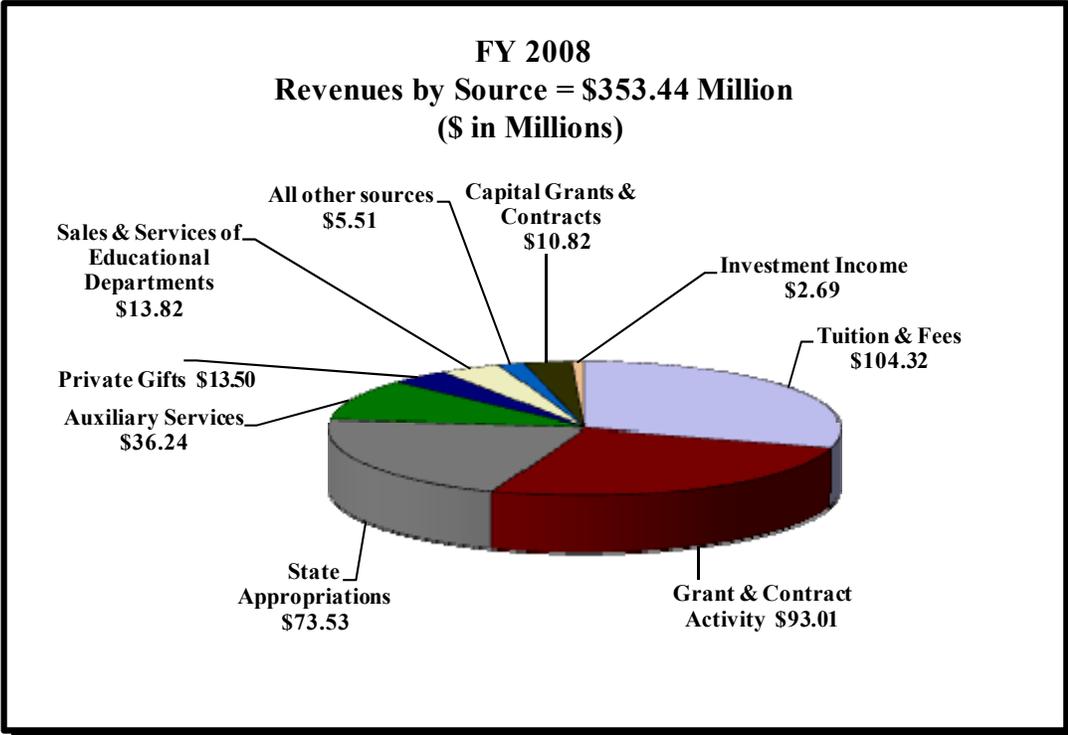
- Capital grants and gifts amounted to \$10,817,000 during the year and were as follows:

<u>Project</u>	<u>Amount</u>	<u>Campus</u>
Upgrade Steam Distribution System	\$ 3,285,000	Missoula
Law School Expansion	2,242,000	Missoula
Donaldson Building	2,238,000	HCOT
Journalism Building	514,000	Missoula
HVAC Projects	1,362,000	Missoula
Cell Block Renovation	512,000	Missoula
Other Renewal and Replacement Projects	664,000	Various
Total	<u>\$ 10,817,000</u>	

- Operating expenses increased by approximately \$24.8 million due primarily to increases in salaries and benefits, other post employment benefits, and utility and supply costs, of \$11.6 million, \$7.4 million, and \$4.4 million, respectively. Salary increases in FY08 for classified staff and faculty were 3.6 and 3.0%, respectively. Employer contributions for employee benefits including health insurance, increased by approximately 8.3% over FY 07.

**Events or developments which occurred during 2007 include:**

- Tuition and fees increased by almost \$8.0 million, with approximately \$6.4 million of the increase attributable to higher tuition rates, and the remainder to higher enrollments in FY 07.
- Grants and contract revenue from state, local and private funding sources, and facilities and administrative cost allowances, increased by over \$2.2 million. Funding for research from federal sources continues to be difficult to obtain because of the federal government's war efforts. As a result, funding from this source declined by almost \$734 thousand in FY 07.
- Sales and service revenue increased by almost \$1.8 million over FY 06, with approximately \$1.0 million of the increase attributable to additional intercollegiate athletics event ticket sales and game guarantees, and additional special event ticket sales. An increase in educational department sales and service revenue accounts for most of the remaining increase.
- Investment earnings increased by over \$2.8 million due largely to a \$1.7 million fair value increase in pooled equity investments. The investment earnings were also positively impacted by the investment of over \$17.1 million of unexpended bond proceeds in various interest bearing investments throughout the year, as well as continued higher yields on the State's Short Term Investment Pool (STIP). STIP rates averaged 4.25% in 2006 and 5.35% in 2007.
- Capital grants and gifts increased by approximately \$5.1 million due primarily to \$5.6 million of State funding received for the Donaldson Building addition on the Helena campus.
- Operating expenses increased by approximately \$15.7 million due primarily to increases in salaries and benefits, and supplies and other services of approximately \$11.6 million and \$1.9 million, respectively. Salary increases in FY 07 for classified staff and faculty were 3.6% and 3.0%, respectively. Employer contributions for employee benefits including health insurance, increased by approximately 10% over FY 06.



## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, its ability to generate future cash flows, and its needs for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

<u>CASH FLOW CATEGORY</u>	<u>For years ended June 30,</u>		
	<u>(stated in millions)</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash Provided by (Used for):			
Operating Activities	\$ (58.40)	\$ (47.39)	\$ (49.19)
Non-capital Financial Activities	88.96	80.13	80.66
Capital and Related Financial Activities	(18.03)	(36.44)	(13.85)
Investing Activities	(45.13)	6.12	8.98
Net (Decrease) Increase in Cash	(32.60)	2.42	26.60
Cash and Cash Equivalents, beginning of year	87.05	84.63	58.03
Cash and Cash Equivalents, end of year	\$ 54.45	\$ 87.05	\$ 84.63

Specific events or cash transactions in FY 08 which were notable included:

- Cash flows from operating revenues increased by approximately \$3.9 million over FY 07, due primarily to an increase in cash flows from tuition and fees, and auxiliary enterprise charges service activities totaling \$4.4 million. This increase in cash flows was offset by an increase in operating expenses of \$11.0 million due largely to an increase in payments for salaries and benefits of \$8.4 million and \$3.3 million for operating expenses.
- The University purchase \$22.0 million of intermediate term investments and additional Trust Fund Bond Pool shares in FY 08, accounting for most of the \$24.2 million increase in cash used in investing activities.
- Overall, \$45.1 million in cash was used in capital and related financing activities, or an increase of \$8.7 million in comparison to FY 07. The University issued \$343 thousand of long term debt in FY 08 to finance current or future acquisitions of capital assets. In FY 08, \$31.5 million was paid for construction and acquisition of capital assets. An additional \$14.1 million of cash was used to make debt service payments on long term obligations, including, \$6.6 million of principal paid.

Specific events or cash transactions in FY 07 which were notable included:

- Cash flows from operating revenues increased by approximately \$11.6 million over FY 06, due primarily to an increase in cash flows from tuition and fees, auxiliary enterprise charges, and sales and service activities totaling \$10.9 million. This increase in cash flows was offset by an increase in operating expenses of \$9.8 million due largely to an increase in payments for salaries and benefits of \$7.9 million.
- Cash provided by investing activities declined by \$2.8 million over the prior year due primarily to an overall decrease in the purchase and sale of investments.

- Overall, \$36.4 million in cash was used in capital and related financing activities, or an increase of \$22.6 million in comparison to FY 06. The University did not issue additional long term debt in FY 07 to finance current or future acquisitions of capital assets. In FY 07, \$22.8 million was paid for construction and acquisition of capital assets. An additional \$13.8 million of cash was used to make debt service payments on long term obligations, including, \$6.4 million of principal paid.

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

The issues we view as significant pending economic or financial issues for the four campuses of the University are:

- As of June 30, 2008, there were a number of major construction projects that have been completed, under construction or being planned. The following is a summary of estimated costs, the projects and the status as of June 30<sup>th</sup>, 2008.

Project Name	Estimated Cost	Campus	Status
Skaggs Addition	\$14.2M	Missoula	Complete
Anderson Hall	\$13.8M	Missoula	Complete
Stadium Expansion	\$5.75M	Missoula	Complete
HHP Lab Addition	\$1.4M	Missoula	Complete
Math Elevator ADA	\$1.2M	Missoula	Complete
Old Journalism Renovation	\$600,000	Missoula	Complete
Natural Sciences Windows	\$310,000	Missoula	Complete
Tennis court Resurface	\$125,000	Missoula	Complete
South Campus Master Plan	\$75,000	Missoula	Complete
Law School Addition	\$14.7M	Missoula	Under Construction
Interdisciplinary Science	\$13.8M	Missoula	Under Construction
Steam Line Replacement	\$12.4M	Missoula	Under Construction
Education Addition	\$12M	Missoula	Under Construction
CLAPP HVAC	\$820,000	Missoula	Under Construction
Health Science HVAC	\$565,000	Missoula	Under Construction
Mansfield Library HVAC	\$440,000	Missoula	Under Construction
Field Station Renovation	\$400,000	Missoula	Under Construction
Fire Lanes LA/Journalism	\$210,000	Missoula	Under Construction
Native American Center	\$10M	Missoula	Out to Bid
Missoula COT	\$500,000	Missoula	Design Development (\$32.5m)
Gilkey Education Addition	\$9.0M	Missoula	Planning
Alumni/Foundation Building	TBD	Missoula	Planning
Art/Culture Museum	TBD	Missoula	Planning
MBMG/Petroleum Building	\$20.5M	MT Tech	Under Construction
Main Hall Renovation	\$4.5M	Western	Under Construction

These projects are being funded from a variety of sources including, Series J bond proceeds, private donations and state funding.

- The 2007 Session of the Montana Legislature approved a plan proposed by the Governor to freeze tuition for Montana resident students during the two years of the 2009 biennium. The Governor's initiative is known as the College Affordability Plan (CAP). The CAP replaced tuition revenue with general fund appropriation. The Governor's plan is a welcome relief for Montana students after an extended period of rising tuition. Nonresident student tuition and mandatory fees are not frozen and can be increased during the biennium upon approval by the Board of Regents.

- The 2007 Session of the Montana Legislature did not appropriate sufficient additional funding to cover operation and maintenance costs associated with several new facilities on the Missoula campus. A concern for the University is securing long term funding over the long-term to cover these ongoing costs without adversely affecting academic programs or administrative services.
- The number of new high school graduates in Montana is projected to decline by about 20% over the next 10 years. The decline in high school graduates will present a new challenge for the University. The University has developed and is implementing strategies to improve access and enhance participation by new high school graduates from Montana to mitigate the impact of potential enrollment declines. While tuition at the University is in the moderate range when compared to other peer institutions, even a moderate level of tuition increase is not affordable for many Montana families. To improve access and hopefully increase the participation rate of a smaller pool of prospective in-state students, the University will continue to refine such programs as Montana Partnering for Affordable College Tuition (MPACT) to minimize debt burden as a barrier to participation. The University will also continue to encourage more need-based assistance at the State level to help increase the overall support provided to economically disadvantaged students. An initiative is currently underway to develop and implement a responsive retention program to improve the retention rate of freshman through sophomore students. During FY 2008, the University completed the development of a comprehensive set of initiatives that are designed to improve the overall student success rate.
- Other efforts by the University to mitigate declining resident enrollment include broadening marketing efforts to attract more non-resident students, including foreign students. In addition, the University has placed emphasis on graduate enrollments and research involvement.
- The University continues to seek ways to improve the efficiency and effectiveness of its operations through an on-going assessment of its business practices. It must pursue initiatives to generate additional financial support, reduce operating costs, while improving services to students.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Net Assets**  
**As of June 30, 2008 and 2007**

	<b>2008</b>	<b>2007*</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 3)	\$ 54,242,994	\$ 86,849,768
Securities lending collateral	1,775,795	317,923
Investments	283,871	270,530
Accounts and grants receivable, net	3,926,722	3,770,961
Due from Federal government	9,959,967	9,658,210
Due from primary government	3,031,025	2,343,985
Due from other State of Montana component units	295,768	392,099
Loans to students, net	1,778,883	1,626,004
Inventories	1,739,906	1,802,423
Prepaid expenses and deferred charges	2,741,381	2,505,436
<b>Total current assets</b>	<b>\$ 79,776,312</b>	<b>\$ 109,537,339</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 207,357	\$ 206,554
Restricted investments	19,021,757	21,013,235
Other long term investments	28,598,934	5,891,682
Loans to students, net	10,259,975	9,040,653
Bond issuance costs	2,038,828	2,152,611
Capital assets, net	289,186,493	263,444,684
<b>Total Noncurrent Assets</b>	<b>\$ 349,313,344</b>	<b>\$ 301,749,419</b>
<b>Total Assets</b>	<b>\$ 429,089,656</b>	<b>\$ 411,286,758</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 20,675,857	\$ 15,603,574
Due to Federal government	159,452	53,937
Due to primary government	859,019	924,390
Due to other State of Montana component units	20,056	38,678
Securities lending liability	1,775,795	317,923
Student and other deposits	2,246,010	2,642,572
Deferred revenue	11,285,347	13,238,008
Accrued compensated absences	8,856,934	8,290,619
Current portion of long-term obligations	5,917,736	6,179,874
<b>Total Current Liabilities</b>	<b>\$ 51,796,206</b>	<b>\$ 47,289,575</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	\$ 12,526,256	\$ 12,099,491
Long term obligations	135,194,873	140,303,151
Advances from primary government	4,778,384	5,076,359
Other post employment benefits	7,351,584	-
Due to Federal Government	10,161,565	10,020,616
Derivative financial instrument	2,094,500	2,094,500
<b>Total Noncurrent Liabilities</b>	<b>\$ 172,107,162</b>	<b>\$ 169,594,117</b>
<b>Total Liabilities</b>	<b>\$ 223,903,368</b>	<b>\$ 216,883,692</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 153,832,155	\$ 134,280,592
Restricted for:		
Nonexpendable		
Endowments	17,378,767	19,159,970
Loans	1,907,200	1,909,185
Expendable		
Loans	1,957,331	1,897,207
Scholarships, research, instruction, and other	4,165,953	3,604,149
Unrestricted	25,944,882	33,551,963
<b>Total Net Assets</b>	<b>\$ 205,186,288</b>	<b>\$ 194,403,066</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 429,089,656</b>	<b>\$ 411,286,758</b>

\* Restated

The accompanying notes are an integral part of these financial statements.

# The University of Montana

*A Component Unit of the State of Montana*

## University Component Units - Combined Statements of Financial Position

As of June 30 or December 31, 2008 and 2007

	2008	2007*
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,214,392	\$ 9,686,713
Short-term investments	4,420,571	7,607,602
Accrued dividends and interest	296,455	348,277
Investments	173,656,689	176,764,749
Contributions receivable, net	23,743,800	15,025,927
Contracts and notes receivable, net	358,314	258,714
Student loans and other receivables	250,631	252,976
Depreciable assets, net of accumulated depreciation	4,351,739	4,709,350
Other assets	666,290	706,747
<b>Total Assets</b>	<b>\$ 220,958,881</b>	<b>\$ 215,361,055</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 473,673	\$ 152,747
Accrued expenses	84,252	27,436
Compensated absences	172,980	179,168
Note payable - bank	355,338	609,873
Liabilities to external beneficiaries	2,877,475	2,961,679
Custodial funds	20,988,477	23,192,715
Other liabilities	343,098	247,319
<b>Total Liabilities</b>	<b>\$ 25,295,293</b>	<b>\$ 27,370,937</b>
<b>NET ASSETS</b>		
Net assets - unrestricted	\$ 11,222,219	\$ 11,175,235
Net assets - temporarily restricted	77,728,412	77,402,970
Net assets - permanently restricted	106,712,957	99,411,913
<b>Total Net Assets</b>	<b>\$ 195,663,588</b>	<b>\$ 187,990,118</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 220,958,881</b>	<b>\$ 215,361,055</b>

*Restated*

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Revenues, Expenses  
and Changes in Net Assets**  
**For the Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007*</b>
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances in 2008 and 2007 of \$19,648,284 and \$17,949,275, respectively )	\$ 104,322,918	\$ 101,135,113
Federal grants and contracts	64,620,082	63,916,568
State and local grants and contracts	9,636,377	9,198,949
Nongovernmental grants and contracts	8,163,997	6,569,106
Grant and contract facilities and administrative cost allowances	10,597,510	10,456,648
Sales and services of educational departments	13,823,552	13,814,950
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2008 and 2007 of \$1,225,432 and \$1,213,061, respectively )	12,692,277	12,373,989
Food services (net of scholarship allowances in 2008 and 2007 of \$1,225,432 and \$1,213,061, respectively)	10,839,308	10,492,514
Other auxiliary revenues	12,705,616	11,727,587
Interest earned on loans to students	45,265	46,005
Other operating revenues	3,631,346	4,761,985
<b>Total operating revenues</b>	<b>\$ 251,078,248</b>	<b>\$ 244,493,414</b>
<b>OPERATING EXPENSES:</b>		
Compensation and employee benefits	\$ 212,769,555	\$ 201,174,968
Other post employment benefits (note 18)	7,351,584	-
Other (note 24)	80,545,464	76,078,147
Scholarships and fellowships	17,775,884	16,355,573
Depreciation and amortization	16,811,747	16,842,365
<b>Total operating expenses</b>	<b>\$ 335,254,234</b>	<b>\$ 310,451,053</b>
<b>OPERATING LOSS</b>	<b>\$ (84,175,986)</b>	<b>\$ (65,957,639)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State appropriations	\$ 73,528,981	\$ 63,455,247
Land grant revenues	1,616,632	1,505,512
Private gifts	13,504,444	14,661,178
Investment income	2,695,372	8,033,742
Interest expense	(7,423,405)	(7,442,523)
<b>Net non-operating revenues</b>	<b>\$ 83,922,024</b>	<b>\$ 80,213,156</b>
<b>INCOME BEFORE OTHER REVENUES (EXPENSES)</b>	<b>\$ (253,962)</b>	<b>\$ 14,255,517</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Capital grants and gifts	\$ 10,816,706	\$ 8,149,640
Additions to permanent endowments	312,500	1,562,500
Gain (loss) on disposal of capital assets	(92,022)	182,002
<b>Total other revenues</b>	<b>\$ 11,037,184</b>	<b>\$ 9,894,142</b>
<b>Net increase in net assets</b>	<b>\$ 10,783,222</b>	<b>\$ 24,149,659</b>
<b>NET ASSETS:</b>		
Net assets - beginning of year	\$ 194,403,066	\$ 170,253,407
<b>Net assets - end of year</b>	<b>\$ 205,186,288</b>	<b>\$ 194,403,066</b>

\* Restated

# The University of Montana

## A Component Unit of the State of Montana

### University Component Units - Combined Statement of Activities

For the Years Ended June 30 or December 31, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
<b>REVENUES:</b>				
Contributions	\$ 1,533,521	\$ 28,023,597	\$ 6,563,336	\$ 36,120,454
Interest and dividend income	1,020,609	4,503,287	130,670	5,654,566
Net realized and unrealized gain (loss) on investments	(170,397)	(13,345,253)	(274,543)	(13,790,193)
Loss on impairment of asset	96,432	(100,000)	-	(3,568)
Loss on sale of assets	0	(3,000)	-	(3,000)
Support received from university	414,000	67,600	-	481,600
Special events	556,595	286,665	130	843,390
Other income	46,688	813,731	-	860,419
Net assets released from restrictions	18,725,342	(18,725,342)	-	-
<b>Total revenues</b>	<b>\$ 22,222,790</b>	<b>\$ 1,521,285</b>	<b>\$ 6,419,593</b>	<b>\$ 30,163,668</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 8,745,933	\$ -	\$ -	\$ 8,745,933
Capital expenses	1,430,902	-	-	1,430,902
Scholarships and awards	5,966,049	-	-	5,966,049
<b>Total program services</b>	<b>\$ 16,142,884</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,142,884</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 3,011,293	\$ -	\$ -	\$ 3,011,293
General and administrative	2,526,302	-	-	2,526,302
Investment management costs	388,292	-	-	388,292
Other miscellaneous	79,906	-	-	79,906
<b>Total operating expenses</b>	<b>\$ 6,005,793</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,005,793</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ 74,113</b>	<b>\$ 1,521,285</b>	<b>\$ 6,419,593</b>	<b>\$ 8,014,991</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(26,791)	(292,852)	-	(319,643)
Adjustments	(338)	(902,991)	881,451	(21,878)
<b>Change in net assets</b>	<b>\$ 46,984</b>	<b>\$ 325,442</b>	<b>\$ 7,301,044</b>	<b>\$ 7,673,470</b>
<b>Net assets, beginning of year</b>	<b>11,175,235</b>	<b>77,402,970</b>	<b>99,411,913</b>	<b>187,990,118</b>
<b>Net assets, end of year</b>	<b>\$ 11,222,219</b>	<b>\$ 77,728,412</b>	<b>\$ 106,712,957</b>	<b>\$ 195,663,588</b>

The accompanying notes are an integral part of these financial statements.

# The University of Montana

*A Component Unit of the State of Montana*

## University Component Units - Combined Statement of Activities

For the Years Ended June 30 or December 31, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007* Total
<b>REVENUES:</b>				
Contributions	\$ 1,355,595	\$ 12,513,188	\$ 6,292,472	\$ 20,161,255
Interest and dividend income	809,943	3,602,645	-	4,412,588
Net realized and unrealized gain (loss) on investments	264,591	16,823,234	631,621	17,719,446
Loss on impairment of asset	(166,170)	-	-	(166,170)
Loss on sale of assets	(33,500)	-	-	(33,500)
Support received from university	292,000	69,500	-	361,500
Special events	599,331	253,936	86	853,353
Other income	19,395	863,254	-	882,649
Net assets released from restrictions	19,347,326	(19,347,326)	-	-
<b>Total revenues</b>	<b>\$ 22,488,511</b>	<b>\$ 14,778,431</b>	<b>\$ 6,924,179</b>	<b>\$ 44,191,121</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 6,749,270	\$ -	\$ -	\$ 6,749,270
Capital expenses	4,755,090	-	-	4,755,090
Scholarships and awards	5,275,620	-	-	5,275,620
<b>Total program services</b>	<b>\$ 16,779,980</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,779,980</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 2,741,252	\$ -	\$ -	\$ 2,741,252
General and administrative	1,616,782	-	-	1,616,782
Investment management costs	390,578	-	-	390,578
Other miscellaneous	242,426	-	-	242,426
<b>Total operating expenses</b>	<b>\$ 4,991,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,991,038</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ 717,493</b>	<b>\$ 14,778,431</b>	<b>\$ 6,924,179</b>	<b>\$ 22,420,103</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	6,936	(374,582)	-	(367,646)
Adjustments	-	(13,742)	13,742	-
<b>Change in net assets</b>	<b>\$ 724,429</b>	<b>\$ 14,390,107</b>	<b>\$ 6,937,921</b>	<b>\$ 22,052,457</b>
<b>Net assets, beginning of year</b>	<b>10,450,806</b>	<b>63,012,863</b>	<b>92,473,992</b>	<b>165,937,661</b>
<b>Net assets, end of year</b>	<b>\$ 11,175,235</b>	<b>\$ 77,402,970</b>	<b>\$ 99,411,913</b>	<b>\$ 187,990,118</b>

\* Restated

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007*</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 102,666,290	\$ 100,493,444
Federal grants and contracts	62,408,599	63,975,328
State grants and contracts	9,337,395	9,187,248
Nongovernmental grants and contracts	7,872,613	6,560,751
Grant and contract facilities and administrative cost allowances	10,597,510	10,456,648
Sales and services of educational activities	13,682,501	14,230,927
Auxiliary enterprises charges	36,906,999	34,754,277
Interest earned on loans to students	149,865	116,174
Other operating receipts	4,379,513	4,301,634
Payments to employees for salaries and benefit:	(208,259,183)	(199,839,312)
Operating expenses	(78,998,578)	(75,662,730)
Payments for scholarships and fellowships	(17,775,884)	(16,355,573)
Loans made to students	(3,560,865)	(2,401,091)
Loan payments received	2,188,663	2,794,572
<b>Net Cash Used by Operating Activities</b>	<b>\$ (58,404,562)</b>	<b>\$ (47,387,703)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 73,528,981	\$ 63,455,247
Land Grants	1,616,632	1,505,512
Private Gifts	13,504,445	13,603,340
Additions to permanent endowments	312,500	1,562,500
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$ 88,962,558</b>	<b>\$ 80,126,599</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (25,166,160)	\$ (1,574,689)
Proceeds from sales of investments	2,065,794	1,587,772
Earnings received on investments	5,066,621	6,112,051
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>\$ (18,033,745)</b>	<b>\$ 6,125,134</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	\$ (31,487,262)	\$ (22,804,298)
Proceeds from the sale of capital assets	84,029	211,970
Proceeds from notes payable and advances from primary government	342,993	-
Principal paid on notes payable, advance from primary government, and capital lease:	(963,330)	(1,273,114)
Principal paid on bonds payable	(5,610,000)	(5,105,000)
Interest paid on capital debt and leases	(7,496,652)	(7,469,254)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (45,130,222)</b>	<b>\$ (36,439,696)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalent:</b>	<b>\$ (32,605,971)</b>	<b>\$ 2,424,334</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 87,056,322</b>	<b>\$ 84,631,988</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 54,450,351</b>	<b>\$ 87,056,322</b>

\* Restated

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Cash Flows**

**For the Years Ended June 30, 2008 and 2007**

(Continued)

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used By) Operating Activities:</b>		
Operating loss:	\$ (84,175,986)	\$ (65,957,639)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	16,811,747	16,842,365
Other amortization expense	332,409	335,920
Other post employment benefits	7,351,584	-
Changes in assets and liabilities:		
Accounts receivable	(1,048,227)	(1,810,938)
Loans to students	(1,372,201)	562,363
Inventories	62,517	(42,443)
Prepaid expenses and deferred charges	(235,945)	(843,926)
Accounts payable and accrued expenses	5,084,734	1,264,402
Deferred revenue	(1,952,661)	734,672
Student and other deposits	(396,562)	352,007
Due to federal government	140,949	144,956
Compensated absences	993,080	1,030,558
<b>Net Cash Used by Operating Activities</b>	<b>\$ (58,404,562)</b>	<b>\$ (47,387,703)</b>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions:</b>		
Fixed assets acquired by incurring capital lease obligations	\$ 425,635	\$ (86,413)
Change in fair value of investments recognized as a component of interest income	\$ (2,371,248)	\$ 1,921,693
Cash equivalent investment reclassified to other long term investments	\$ 1,866,274	\$ -
Fixed assets acquired from Capital grants and donations	\$ 10,816,705	\$ 8,149,640
<b>Reconciliation of Cash and Cash Equivalent to the Statement of Net Asset</b>		
Cash and cash equivalents classified as current assets	\$ 54,242,994	\$ 86,849,768
Cash and cash equivalents classified as noncurrent assets	207,357	206,554
<b>Total Cash and Cash Equivalents, End of Year</b>	<b>\$ 54,450,351</b>	<b>\$ 87,056,322</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## THE UNIVERSITY OF MONTANA *A COMPONENT UNIT OF THE STATE OF MONTANA* FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

#### ▪ ORGANIZATION

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 18,000 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

#### ▪ REPORTING ENTITY

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are The University of Montana – Missoula, Montana Tech of The University of Montana, which is located in Butte, The University of Montana – Western, which is located in Dillon, and The University of Montana - Helena College of Technology.

GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14” requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of one percent of consolidated net assets or one percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 21, “Accounting for Component Units.”

The University is considered a component unit of the State of Montana under GASB No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

#### ▪ BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments” and GASB Statement No. 35, “Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities,” the University is required to present a Statement of Net Assets, a Statement of Revenues, Expenses

## Notes to the Consolidated Financial Statements (continued)

and Changes in Net Assets, and a Statement of Cash Flows. All significant intra-entity transactions have been eliminated upon consolidation.

Also, in accordance with GASB Statement No. 39, the combined statement of financial position and statement of activities of the four component units referred to above are separately presented following the respective University financial statements.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ▪ BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's consolidated financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University elected to not apply FASB pronouncements issued after the applicable date.

#### ▪ USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

#### ▪ CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in money market funds and in the Short Term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

#### ▪ INVESTMENTS

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

#### ▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

#### ▪ INVENTORIES

Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving-average method. Other inventories are valued using First In First Out (FIFO) or specific identification methods.

#### ▪ CASH AND SHORT-TERM INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the Consolidated Statement of Net Assets.

## Notes to the Consolidated Financial Statements (continued)

### ▪ CAPITAL ASSETS

Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The table below illustrates the capitalization thresholds.

<u>Capital Asset Category:</u>	<u>Capitalization Threshold</u> <u>Amount:</u>
Equipment	\$5,000
Buildings, Building Improvements, Land Improvements	\$25,000
Infrastructure	\$500,000

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment- 3 to 10 years. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

### ▪ DEFERRED REVENUE

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

### ▪ COMPENSATED LEAVE

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

### ▪ NET ASSETS

The University's net assets are categorized as follows:

- **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable** - Net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.
- **Restricted, expendable** - Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

### ▪ CLASSIFICATION OF REVENUES

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenue** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

## Notes to the Consolidated Financial Statements (continued)

- **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations and investment income.

### ▪ **USE OF RESTRICTED REVENUES**

When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they have been expended.

### ▪ **SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

### • **RECLASSIFICATION AND RESTATEMENT**

In order to make certain prior year amounts compare to the current year presentation on the Consolidated Statement of Net Assets, \$1,901,335 was reclassified from accounts and grants receivable to due from federal government. On the Consolidated Statement of Revenues, Expenses and Changes in Net Assets, certain prior year revenue amounts were reclassified to more appropriate financial statement classifications, the largest was a \$1,413,760 reclassification from other operating revenues to tuition and fees.

## NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

### ▪ **CASH DEPOSITS**

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2008 and 2007 totaled \$27,104,868 and \$29,411,486, respectively

### ▪ **CASH EQUIVALENTS**

Cash equivalents consist of \$8,588,579 of cash invested in a money market fund with First American Funds, and \$18,126,404 in the STIP with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2008 and 2007 were \$26,714,983 and \$57,006,960, respectively. At June 30, 2008, \$5,329,075 of the amount invested in a money market fund, were unexpended proceeds from the issuance of Facility Improvement Revenue Bonds. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate, instruments to provide diversification and a competitive rate of return. The First American Funds, Treasury Obligations Money Market Fund invests exclusively in short-term U.S. Treasury Obligations, including repurchase agreements secured by U.S. Treasury Obligations. The U.S. Treasury obligations in which the fund invests include U.S. Treasury bonds, notes and bills. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

## Notes to the Consolidated Financial Statements (continued)

### INVESTMENTS

Investments consisted of the following at June 30, 2008 and 2007:

Security Type	Fair Value		Effective Duration at June 30, 2008*	Credit Quality Rating at June 30, 2008***
	2008	2007		
U.S. Government Sponsored Entities	\$ 14,989,237	\$ 2,056,148	2.635	AAA
Short Term Investment Pool (STIP)****	1,866,274	-	Not Applicable	NR
Trust Fund Bond Pool (TFBP)	13,644,676	5,727,734	4.66**	NR
Montana Domestic Equity Pool (MDEP)	1,140,294	1,318,308	Not Applicable	N/A
Foundation Pooled Investments	15,980,210	17,802,727	Not Applicable	N/A
Certificates of Deposits	283,871	270,530	.947	N/A
<b>Total investments</b>	<u>\$ 47,904,562</u>	<u>\$ 27,175,447</u>		
<b>Securities Lending Collateral Investment Pool</b>	<u>\$ 1,775,795</u>	<u>\$ 317,923</u>		

\*See Interest Rate Risk under the Investment Risks disclosure included in this note.

\*\*Effective duration for the Trust Fund Bond Pool (TFBP) is for the entire portfolio. The University's ownership represents less than 0.5% of the portfolio

\*\*\*NR indicates security investment unrated for credit quality type.

\*\*\*\*Structured Investment Vehicle investments in STIP portfolio reclassified from cash and cash equivalents.

Investments held by the University at June 30, 2008 and 2007 are described further in the paragraphs below.

#### U.S. Government Sponsored Entities

U.S. government sponsored entities securities are mortgage-backed securities purchased and administered by the Montana Board of Investments (MBOI), or bond trustee funds managed by U.S. Bank for the University. All of the securities were registered under the nominee's name (MBOI or U.S. Bank) on behalf of the University.

#### Montana Board of Investments Pools

The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2008 and 2007:

##### Montana Domestic Equity Pool (MDEP)

The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's) and equity derivatives. ADR's are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options.

##### Trust Funds Bond Pool (TFBP)

The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, and Yankee securities. The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities.

## Notes to the Consolidated Financial Statements (continued)

### **The University Foundation Pools**

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations.

### **Certificates of deposit**

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The certificate of deposit, including interest earned, is reinvested upon maturity.

### **Securities lending transactions**

Under the provisions of state statutes, the Board of Investments, via a Securities Lending Authorization Agreement, has authorized the custodial bank, State Street Bank and Trust, to lend the Board of Investment's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board of Investments receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2008 and 2007, the Board of Investments and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified-plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board of Investment's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board of Investments could not determine. At June 30, 2008 and 2007, the Board of Investments had no credit risk exposure to borrowers.

### **Investment risks**

Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures." Investments administered by the MBOI for the University are subject to their investment risk policies. The University does not have a formal investment policy for interest rate risk or credit risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFBP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. box 200126, Helena, MT 59620-0126.

Investment risks associated with the University's investments are described in the following paragraphs:

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate risk disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFBP investment policy does not formally address interest rate risk.

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method to disclose interest rate risk. Duration is a measure of a debt's exposure to fair value changes from changing interest rates. It uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price.

#### **Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFBP fixed income instruments have credit risk as measured by major credit rating services. The Board of Investments' policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The First American money market fund has received AAA credit quality ratings from three NSRO's: Moody's; Standard and Poor's; and Fitch.

## Notes to the Consolidated Financial Statements (continued)

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008 and 2007, all STIP, MDEP and TFBP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." The TFBP's State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. MDEP investments in pooled investments, such as the BGI Equity Index and DFA Small Cap Subtrust investments, are also excluded from this requirement. According to the TFBP Investment Policy, "with the exception of the U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made if the credit risk exceeds 2 percent of the portfolio at the time of purchase." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2008 and 2007, expressed as a percentage of total investments, was 31.29% and 7.57%, respectively.

### **Land grant earnings**

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,616,632 and \$1,505,512 for the years ended June 30, 2008 and 2007, respectively. These earnings are currently pledged to the Series C 1995, Series E 1998, Series F 1999, Series G 2002, Series I 2004, and Series J 2005 revenue bonds.

The University's land grant assets are not reflected in the consolidated financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

## **NOTE 4 –SUBSEQUENT EVENT**

The University of Montana invests funds with the Montana Board of Investments. A portion of the U.S government sponsored entities securities held at June 30, 2008, were issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corp. (Freddie Mac) were put into conservatorship on September 7, 2008.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 5 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Student tuition and fees	\$ 2,696,550	\$ 1,460,483
Auxiliary enterprises and other operating activities	1,511,981	1,200,425
Private grants and contracts	229,316	622,524
Other	297,859	821,252
Gross accounts and grants receivable	4,735,706	4,104,684
Less: allowance for doubtful accounts	808,984	333,723
<b>Nets accounts and grants receivable</b>	<u>\$ 3,926,722</u>	<u>\$ 3,770,961</u>

### NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2008 and 2007 are \$10,161,565 and \$10,020,616, respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses is shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the Consolidated Statement of Net Assets.

### NOTE 7 – INVENTORIES

Inventories consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Bookstore	\$ 624,128	\$ 709,927
Food services	123,247	117,814
Facilities services	716,815	697,431
Other	275,716	277,251
<b>Total inventories</b>	<u>\$ 1,739,906</u>	<u>\$ 1,802,423</u>

### NOTE 8 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Summer session	\$ 566,172	\$ 568,285
Travel advances	49,732	55,101
Other prepaid expenses	2,125,477	1,882,050
<b>Total prepaid expenses and other deferred charges</b>	<u>\$ 2,741,381</u>	<u>\$ 2,505,436</u>

## Notes to the Consolidated Financial Statements (continued)

## NOTE 9 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2008 and 2007, respectively.

**For the year ended June 30, 2008:**

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,125,781	\$ 407,148	\$ -	\$ -	\$ 7,532,929
Capitalized Collections	16,210,450	328,383	7,500	-	16,531,333
Construction in progress	52,028,936	32,209,652	-	(37,051,480)	47,187,108
	<u>75,365,167</u>	<u>32,945,183</u>	<u>7,500</u>	<u>(37,051,480)</u>	<u>71,251,370</u>
<b>Other capital assets:</b>					
Buildings	204,142,766	260,056	52,000	33,590,973	237,941,795
Building improvements	129,972,955	1,174,017	51,232	3,326,703	134,422,443
Furniture and equipment	49,940,948	6,799,629	3,490,967	(787)	53,248,823
Land improvements	12,619,381	-	-	133,804	12,753,185
Livestock	24,197	-	5,149	-	19,048
Library materials	50,920,432	1,413,464	120,035	-	52,213,861
	<u>447,620,679</u>	<u>9,647,166</u>	<u>3,719,383</u>	<u>37,050,693</u>	<u>490,599,155</u>
<b>Less accumulated depreciation for:</b>					
Buildings	96,178,308	4,392,233	47,975	-	100,522,566
Building improvements	78,907,089	6,640,164	51,232	-	85,496,021
Furniture and equipment	31,833,236	3,873,635	3,348,960	-	32,357,911
Livestock	8,433	3,021	2,513	-	8,941
Land improvements	8,570,968	328,048	-	-	8,899,016
Library materials	44,380,909	1,417,827	120,035	-	45,678,701
	<u>259,878,943</u>	<u>16,654,928</u>	<u>3,570,715</u>	<u>-</u>	<u>272,963,156</u>
<b>Other capital assets, net</b>	<u>187,741,736</u>	<u>(7,007,762)</u>	<u>148,668</u>	<u>37,050,693</u>	<u>217,635,999</u>
<b>Intangible assets</b>	337,781	120,282	2,120	(156,819)	299,124
<b>Total capital assets, net</b>	<u>\$ 263,444,684</u>	<u>\$ 26,057,703</u>	<u>\$ 158,288</u>	<u>\$ (157,606)</u>	<u>\$ 289,186,493</u>
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 75,365,167	\$ 32,945,183	\$ 7,500	\$ (37,051,480)	\$ 71,251,370
Other capital and intangible assets	447,958,460	9,767,448	3,721,503	36,893,874	490,898,279
	<u>523,323,627</u>	<u>42,712,631</u>	<u>3,729,003</u>	<u>(157,606)</u>	<u>562,149,649</u>
Less: accumulated depreciation	259,878,943	16,654,928	3,570,715	-	272,963,156
<b>Total capital assets, net</b>	<u>\$ 263,444,684</u>	<u>\$ 26,057,703</u>	<u>\$ 158,288</u>	<u>\$ (157,606)</u>	<u>\$ 289,186,493</u>

## Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2007:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,125,781	\$ -	\$ -	\$ -	\$ 7,125,781
Capitalized Collections	15,461,417	779,533	30,500	-	16,210,450
Construction in progress	29,691,709	24,867,970	-	(2,530,743)	52,028,936
	52,278,907	25,647,503	30,500	(2,530,743)	75,365,167
<b>Other capital assets:</b>					
Buildings	203,800,450	342,316	-	-	204,142,766
Building improvements	127,504,476	-	-	2,468,479	129,972,955
Furniture and equipment	46,344,468	4,609,591	959,950	(53,161)	49,940,948
Land improvements	12,619,381	-	-	-	12,619,381
Livestock	34,197	-	10,000	-	24,197
Library materials	49,289,112	1,633,880	-	(2,560)	50,920,432
	439,592,084	6,585,787	969,950	2,412,758	447,620,679
<b>Less accumulated depreciation for:</b>					
Buildings	91,680,684	4,497,624	-	-	96,178,308
Building improvements	72,214,239	6,692,850	-	-	78,907,089
Furniture and equipment	29,233,638	3,491,646	892,168	120	31,833,236
Livestock	7,685	3,165	2,417	-	8,433
Land improvements	8,220,918	350,050	-	-	8,570,968
Library materials	42,744,327	1,560,137	-	76,445	44,380,909
	244,101,491	16,595,472	894,585	76,565	259,878,943
<b>Other capital assets, net</b>	195,490,593	(10,009,685)	75,365	2,336,193	187,741,736
<b>Intangible assets</b>	502,879	82,000	205	(246,893)	337,781
<b>Total capital assets, net</b>	\$ 248,272,379	\$ 15,719,818	\$ 106,070	\$ (441,443)	\$ 263,444,684
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 52,278,907	\$ 25,647,503	\$ 30,500	\$ (2,530,743)	\$ 75,365,167
Other capital and intangible assets	440,094,963	6,667,787	970,155	2,165,865	447,958,460
	492,373,870	32,315,290	1,000,655	(364,878)	523,323,627
Less: accumulated depreciation	244,101,491	16,595,472	894,585	76,565	259,878,943
<b>Total capital assets, net</b>	\$ 248,272,379	\$ 15,719,818	\$ 106,070	\$ (441,443)	\$ 263,444,684

## NOTE 10 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2008 and 2007:

	2008	2007
Grant and contract revenue received in advance	\$ 5,049,108	\$ 7,370,624
Summer session payments received in advance	3,127,622	3,001,289
Other deferred revenues	3,108,617	2,866,095
<b>Total deferred revenue</b>	\$ 11,285,347	\$ 13,238,008

## Notes to the Consolidated Financial Statements (continued)

### NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2008 and 2007:

	2008	2007
Compensation, benefits and related liabilities	\$ 16,594,137	\$ 9,901,594
Accrued interest expense	874,676	908,178
Accounts payable and other accrued liabilities	3,207,044	4,793,802
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 20,675,857</b>	<b>\$ 15,603,574</b>

### NOTE 12 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2008 and 2007, respectively:

#### For the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 145,121,397	\$ 268,307	\$ 5,659,681	\$139,730,023	\$ 5,590,000
Notes payable	930,491	232,589	416,976	746,104	85,188
Capital leases payable	431,137	425,635	220,290	636,482	242,548
	146,483,025	926,531	6,296,947	141,112,609	5,917,736
<b>Other long-term liabilities</b>					
Accrued compensated absences	20,390,110	9,537,369	8,544,289	21,383,190	8,856,934
Advances from primary government	5,466,477	110,404	390,115	5,186,766	408,382
Other Post Employment Benefits	-	7,351,584	-	7,351,584	-
Due to Federal Government	10,020,616	140,949	-	10,161,565	-
Derivative financial instrument	2,094,500	-	-	2,094,500	-
	37,971,703	17,140,306	8,934,404	46,177,605	9,265,316
<b>Total long-term liabilities</b>	<b>\$ 184,454,728</b>	<b>\$ 18,066,837</b>	<b>\$ 15,231,351</b>	<b>\$ 187,290,214</b>	<b>\$ 15,183,052</b>

#### For the year ended June 30, 2007:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 150,007,775	\$ 268,303	\$ 5,154,681	\$ 145,121,397	\$ 5,610,000
Notes payable	1,590,964	-	660,473	930,491	418,470
Capital leases payable	636,037	32,866	237,766	431,137	151,404
	152,234,776	301,169	6,052,920	146,483,025	6,179,874
<b>Other long-term liabilities</b>					
Accrued compensated absences	19,359,552	9,118,942	8,088,384	20,390,110	8,290,619
Advances from primary government	5,841,295	-	374,818	5,466,477	390,118
Due to Federal Government	9,875,660	144,956	-	10,020,616	-
Derivative financial instrument	2,094,500	-	-	2,094,500	-
	37,171,007	9,263,898	8,463,202	37,971,703	8,680,737
<b>Total long-term liabilities</b>	<b>\$ 189,405,783</b>	<b>\$ 9,565,067</b>	<b>\$ 14,516,122</b>	<b>\$ 184,454,728</b>	<b>\$ 14,860,611</b>

## Notes to the Consolidated Financial Statements (continued)

Long-term liabilities include:

- capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year;
- estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and
- other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

### **Interest Rate Exchange Agreement**

In August, 2005 the University entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. In exchange, the University received \$2,094,500 from the counterparty. A portion of the payment was consideration for the estimated present value of the fixed rate payable under the agreement upon execution of the swaption. The swaption gives the counterparty the right to require that the University execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, the University would expect to issue Series K 2010 taxable, variable rate bonds at the \$47,000,000 notional amount of the swap. The intention of the University in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

*Terms* – The counterparty has the right to exercise the swap on May 15, 2010, the call date of the Series F 1999 Revenue Bonds. If the swaption is exercised it will also become effective on May 15, 2010. Under terms of the swap, the University will pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

Once the refunded Series F 1999 Revenue Bonds escrow matures in 2019, the floating rate Series K 2010 Parity Bonds will be converted to tax-exempt bonds and the swap will convert to tax exempt rates as well. Should the option to enter the swap not be exercised by the counterparty, the University would not be required to repay the swaption purchase price.

*Fair Value* – At June 30, 2008, the swaption has a negative fair value of \$2,309,206. Such value was provided to the University by the counterparty, and was calculated as an approximation of market value derived from proprietary models and from certain other financial information believed to be reliable by the counterparty. The negative fair value of the swaption indicates that the fixed rate the University would pay under the potential transaction exceeded the one-month London InterBank Offering Rate (LIBOR) at June 30, 2008.

*Market-access risk* – If the option is exercised and variable-rate Series K 2010 Parity Bonds are not issued by the University, the Series F 1999 Revenue Bonds would not be refunded, and the University would make net swap payments as required by the terms of the swap.

### **Capital Leases**

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2008:

<b>Fiscal Year</b>	<b>Total</b>
2009	\$ 293,141
2010	231,425
2011	117,727
2012	73,178
2013	16,828
Minimum lease payments	\$ 732,299
Less: Amount representing interest	95,817
Present value of net minimum lease payments	\$ 636,482

**Notes to the Consolidated Financial Statements (continued)****NOTE 13 – REVENUE BONDS**

Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2008 and 2007, was \$168,411,780 and \$169,426,780, respectively. The combined principal amount outstanding at June 30, 2008 and 2007 was \$141,954,997 and \$147,564,997, respectively.

**Series C 1995**

On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest ranging from 3.80 percent to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds.

**Series E 1998**

On June 26, 1998, The University of Montana issued \$10,670,000 of Series E 1998 Revenue Bonds, with interest ranging from 3.90 percent to 5.00 percent. The proceeds from the issue provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

**Series F 1999**

On November 12, 1999, The University of Montana issued \$69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80 percent to 6.00 percent. The proceeds from the issue were used for the purpose of restructuring Series B, C and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average interest rates ranging from 4.30 percent to 6.65 percent. The Series B, C and D Facilities Improvements Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

Included in the Series F issuance was \$10,650,000 for construction of a new recreation facility at the University's Missoula campus. In September, 2005, the Series J 2005 Revenue Bond issuance advanced refunded the outstanding principal amount of this portion of the Series F 1999 issuance (see Series J 2005 below).

**Series G 2002**

On October 18, 2002, The University of Montana issued \$18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

**Series I 2004**

In April 2004, The University of Montana issued \$40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.75 percent. The proceeds from the issue paid and discharged \$30,540,000 of Series A 1993, Revenue Bonds. The issuance also provided \$7,000,000 towards future expansion of the Skaggs Building and \$2,950,000 for deferred maintenance on the Missoula campus.

**Series J 2005**

On September 15, 2005, The University of Montana issued \$31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the

## Notes to the Consolidated Financial Statements (continued)

issue, together with certain resources of the University, will provide funds to pay and discharge a portion of the Series F Revenue Bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

The University of Montana recorded \$11,120,000 of the Series J 2005 Revenue Bonds to advance refund \$10,010,000 of outstanding Series F Facilities Improvement Revenue Bonds to reduce annual debt service payments. The interest rates on the advanced refunded revenue bonds ranged from 4.80 percent to 6.00 percent. The Series F Facilities Improvement Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements. The debt service cash flows for Series J 2005 Revenue Bonds (Refunding portion) are less than the debt service cash flows for the advanced refunded bonds by \$862,000. The economic gain for the University of Montana from the advanced refunding was \$600,786 (difference between the present values of the debt service payments on the old and new debt).

### Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2008 and 2007, \$ 49,029,871 and \$51,481,125, respectively, of bonds outstanding were considered defeased.

### Revenue Bonds Payable

As of June 30, 2008 annual principal payments are as follows:

<b>Series C 1995 (Partial)</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	5.10%	\$ 475,000
2010	5.20%	495,000
2011	5.25%	525,000
		<u>\$ 1,495,000</u>

<b>Series E 1998</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	4.50%	\$ 405,000
2010	4.60%	310,000
2011	4.70%	460,000
2012	4.80%	470,000
2013	5.00%	500,000
2014-2018	5.00%	2,305,000
2019-2021	5.00%	2,025,000
		<u>6,475,000</u>
Less unamortized discount:		<u>20,666</u>
		<u>\$ 6,454,334</u>

<b>Series F 1999</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	5.10%	\$ 285,000
2010	5.20%	460,000
2011	5.35%	345,000
2012	5.25%	915,000
2013	5.55%	954,997
2014-2018	5.375 - 5.75%	15,135,000
2019-2023	5.75 - 6.00%	31,325,000
2024	5.75%	7,860,000
		<u>57,279,997</u>
Less unamortized discount:		<u>788,653</u>
		<u>\$ 56,491,344</u>

## Notes to the Consolidated Financial Statements (continued)

**Series G 2002**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	3.00%	\$ 480,000
2010	3.15%	420,000
2011	3.30%	430,000
2012	3.40%	445,000
2013	3.60%	460,000
2014-2018	3.75-4.20%	2,575,000
2019-2023	4.30-4.65%	3,165,000
2024-2028	4.65%	3,975,000
2029-2033	4.65%	5,000,000
		<u>16,950,000</u>
Less unamortized discount:		40,032
		<u>\$ 16,909,968</u>

**Series I 2004**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	3.00-3.50%	\$ 2,660,000
2010	3.50%	2,710,000
2011	3.50%	2,800,000
2012	3.50-4.75%	2,905,000
2013	4.75%	3,030,000
2014-2018	3.70-4.75%	8,485,000
2019-2023	4.375%	475,000
2024-2028	4.375 - 4.50%	7,740,000
2029-2030	4.50%	930,000
		<u>31,735,000</u>
Add net unamortized premium:		867,922
		<u>\$ 32,602,922</u>

**Series J 2005**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2009	4.00%	\$ 1,285,000
2010	4.50%	1,330,000
2011	4.50%	990,000
2012	4.25%	1,045,000
2013	4.50%	1,090,000
2014-2018	4.00 -4.50%	5,905,000
2019-2023	4.00-4.25%	7,070,000
2024-2028	4.00- 4.25%	7,045,000
2029-2030	4.25%	2,260,000
		<u>28,020,000</u>
Add net unamortized premium:		46,199
		<u>\$ 28,066,199</u>

**Revenue Bond Payable****Summary:**

Total revenue bonds outstanding	\$ 141,954,997
Add: Net unamortized premiums and discounts	64,770
Less: Unamortized loss on advance refunding	<u>2,289,745</u>
<b>Revenue bonds payable, net</b>	<u>\$ 139,730,023</u>

## Notes to the Consolidated Financial Statements (continued)

The scheduled maturities of the revenue bonds payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2009	\$ 5,590,000	\$ 6,858,006	\$ 12,448,006
2010	5,725,000	6,644,551	12,369,551
2011	5,550,000	6,411,002	11,961,002
2012	5,780,000	6,199,616	11,979,616
2013	6,034,997	5,938,844	11,973,841
2014-2018	34,405,000	25,273,880	59,678,880
2019-2023	44,060,000	15,545,570	59,605,569
2024-2028	26,620,000	4,482,621	31,102,621
2029-2033	8,190,000	927,255	9,117,255
<b>Total</b>	<b>\$ 141,954,997</b>	<b>\$ 78,281,345</b>	<b>\$ 220,236,341</b>

### NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2008 consisted of the following:

<b>Description</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Outstanding</b>	<b>Current Maturities</b>
First Interstate Bank	7.00%	15-Oct-15	\$ 164,689	\$ 18,469
Wells Fargo Bank	4.48%	1-May-15	348,826	43,459
UM Foundation	5.02%	25-Nov-17	232,589	23,260
<b>Total</b>			<b>\$ 746,104</b>	<b>\$ 85,188</b>

The scheduled maturities of the notes payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2009	\$ 85,188	\$ 37,767	\$ 122,955
2010	88,492	33,395	121,887
2011	91,981	28,638	120,619
2012	95,650	23,802	119,452
2013	99,561	18,723	118,284
2014-2018	285,232	28,405	313,637
<b>Total</b>	<b>\$ 746,104</b>	<b>\$ 170,730</b>	<b>\$ 916,834</b>

### NOTE 15 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

### NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program offered through the Montana Board of Investments. The program lends money to state agencies, including the Montana University System, for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements.

### Notes to the Consolidated Financial Statements (continued)

The Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 55 years. The interest rates are variable and are adjusted annually.

Advances from Primary Government at June 30, 2008, are as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
Intercap – Weight Room Expansion	Variable	15-Feb-09	\$ 28,511
Intercap – Lubrecht Forest	Variable	15-Aug-08	11,070
Intercap – IT Wiring and Fiber	Variable	15-Aug-10	120,414
Intercap – Real Estate	Variable	15-Feb-12	40,206
Intercap – Intercollegiate Athletics	Variable	15-Feb-10	113,695
Intercap – Public Safety	Variable	15-Aug-16	253,620
Intercap – Dining Services	Variable	15-Aug-08	2,620
Intercap – Forestry	Variable	15-Aug-14	679,484
Intercap – Campus Mail	Variable	15-Aug-08	1,697
Intercap – Facility Services	Variable	15-Feb-10	35,934
Intercap – Public Safety	Variable	15-Feb-13	263,736
Intercap – ASUM	Variable	15-Feb-13	110,404
Intercap – Microwave Network	Variable	15-Aug-11	36,495
MSTA loan – Research Offices	Variable	30-June-61	3,488,880
			5,186,766
Less Current Maturities			408,382
<b>Total</b>			<b>\$ 4,778,384</b>

The scheduled maturities of the Intercap loans and MSTA loan are as follows:

Fiscal Year	Principal	Interest	Total Payment
2009	\$ 408,382	\$ 155,156	\$ 563,529
2010	375,346	139,007	514,362
2011	287,011	124,272	411,283
2012	262,540	113,235	375,775
2013	253,612	102,747	356,359
2014-2018	479,191	421,809	901,000
2019-2023	221,091	378,909	600,000
2024-2028	250,112	349,888	600,000
2029-2033	282,944	317,056	600,000
2034-2038	320,084	279,916	600,000
2039-2043	362,098	237,902	600,000
2044-2048	409,631	190,369	600,000
2049-2053	463,401	136,599	600,000
2054-2058	524,229	75,771	600,000
2059-2061	287,094	12,906	300,000
<b>Total</b>	<b>\$ 5,186,766</b>	<b>\$ 3,035,542</b>	<b>\$ 8,222,308</b>

### NOTE 17 – RETIREMENT PLANS

Full-time employees of the University are members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

## Notes to the Consolidated Financial Statements (continued)

### PERS, GWPORS and TRS

PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plans are required and determined by state law. The contribution rates for 2008 and 2007 expressed as a percentage of covered payrolls were as follows:

	2008			2007		
	Covered Payroll	Employee	Employer	Covered Payroll	Employee	Employer
PERS	\$ 41,189,082	6.90%	7.04%	\$ 39,256,146	6.90%	6.90%
GWPORS	\$ 594,464	10.54%	9.00%	\$ 517,627	10.76%	9.00%
TRS	\$ 19,539,560	9.32%	9.30%	\$ 20,788,325	9.63%	7.47%

The amounts contributed to the plan during years ending June 30, 2008, 2007, and 2006, were equal to the required contribution each year. The amounts contributed were as follows:

	Year ending June 30,		
	2008	2007	2006
<b><u>PERS</u></b>			
Employer	\$ 2,899,156	\$ 2,710,410	\$ 2,534,423
Employee	\$ 2,843,455	\$ 2,710,756	\$ 2,532,872
<b><u>GWPORS</u></b>			
Employer	\$ 53,506	\$ 46,586	\$ 43,951
Employee	\$ 62,679	\$ 55,674	\$ 50,944
<b><u>TRS</u></b>			
Employer	\$ 1,816,799	\$ 1,553,068	\$ 1,548,934
Employee	\$ 1,821,825	\$ 2,001,911	\$ 1,782,528

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration P.O. Box 200131 100 North Park, Suite 220 Helena, Montana 59620-0131 Phone: (406) 444-3154	Teachers' Retirement Division P.O. Box 200139 1500 Sixth Avenue Helena, MT 59620-0139 Phone: (406) 444-3134
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### ORP

ORP was established in 1988, and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by state law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with

## Notes to the Consolidated Financial Statements (continued)

TIAA-CREF. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP (TIAA-CREF) were as follows:

	<u>Year ending June 30,</u>	
	<u>2008</u>	<u>2007</u>
<b><u>FACULTY</u></b>		
Covered Payroll	\$65,344,630	\$59,715,914
Employer Contributions	\$3,807,955	\$2,960,377
Percent of Covered Payroll	5.827%	4.957%
Employee Contributions	\$4,596,819	\$4,209,633
Percent of Covered Payroll	7.035%	7.049%
<b><u>STAFF</u></b>		
Covered Payroll	\$8,272,833	\$7,686,214
Employer Contributions	\$371,450	\$345,880
Percent of Covered Payroll	4.49%	4.50%
Employee Contributions	\$570,822	\$532,427
Percent of Covered Payroll	6.90%	6.93%

For the years ended June 30, 2008 and 2007, \$3,084,266 and \$2,412,523, respectively, or 4.72% and 4.04%, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, \$210,958 and, \$186,546 respectively, or 2.54% and 2.42 %, respectively, was contributed to PERS from ORP staff employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF  
730 Third Avenue  
New York, New York 10017-3206  
Phone: 1-800-842-2733

### NOTE 18 – OTHER POST EMPLOYMENT BENEFITS FOR HEALTH INSURANCE

The University adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2008. The primary type of other post employment benefit (OPEB) addressed by GASB 45 is post employment health benefits. OPEBS have generally been accounted for on a pay-as-you-go basis and financial statements have often not recognized their financial effects until the benefits are paid. The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, similar to the accounting requirements under GASB 27 for government sponsored pension plans, where the cost of benefits to employees are recognized in periods when the related services are received by the employer.

**Plan Description.** The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Code Annotated, the USGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from \$405 to \$634 for medical coverage and decrease when a

## Notes to the Consolidated Financial Statements (continued)

retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from \$209 to \$498. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an agency fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at <http://accounting.mt.gov/cafr/cafr.asp>.

**Annual OPEB Cost.** The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2008, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Annual OPEB cost (expense)	\$ 7,351,584
Percentage of annual OPEB cost contributed	0.00%
Net OPEB Obligation	\$ 7,351,584

The actuarial determination was based on plan information as of July 1, 2007. At that time, the number of active University participants in the MUS health insurance plan was 2,854. The total inactive (retiree and dependent) participants was 1,017. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2008 was \$19,942,950. The University does not contribute to the plan for its retirees. Currently, the University is not required to fund the ARC.

**Funding Status and Funding Progress.** As of June 30, 2008, the actuarial accrued liability for benefits was \$78,187,418, all of which was unfunded. The funded status of the plan as of June 30, 2008 was as follows:

Actuarial accrued liability (AAL)	\$ 78,187,418
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 78,187,418</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 122,541,536
UAAL as a percentage of covered payroll	64.00%

The UAAL is being amortized as a level dollar amount over an open basis of 30 years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes, the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

**Actuarial Methods and Assumptions** - The actuarial funding method used to determine the cost of the MUSGIP was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

## Notes to the Consolidated Financial Statements (continued)

The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age were as follows:

### Actuarial Assumptions:

Interest/Discount rate	4.25%
Projected payroll increases	3.00%
Participation	45% of future retirees are assumed to elect coverage at the time of retirement, 59% of future eligible spouses of future retirees are assumed to elect coverage

## NOTE 19 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2008 is \$220,236,341 with annual debt service requirements ranging from \$12.4 million in 2009 to \$1.1 million in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2008 and 2007:

	2008		2007	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	\$ 11,286,518	\$ 104,322,918	\$ 10,617,646	\$ 101,135,113
<u>Sales and services:</u>				
Events revenue	4,129,701		3,988,398	
Continuing education	779,827		499,983	
Residence life	848,137		733,938	
Student union facilities	535,515		500,489	
Other sources	815,361		868,694	
<i>Total sales and services</i>	<b>7,108,541</b>	<b>13,823,552</b>	<b>6,591,502</b>	<b>13,814,950</b>
Residence life	<b>12,691,688</b>	<b>12,692,277</b>	<b>12,373,556</b>	<b>12,373,989</b>
Food services	<b>10,710,990</b>	<b>10,839,308</b>	<b>10,438,230</b>	<b>10,492,514</b>
<u>Other auxiliary revenues:</u>				
Residence life	434,400		366,596	
Food services	652,543		592,254	
Student union facilities	182,849		160,537	
Student health services	862,356		803,528	
Parking	1,342,340		1,254,317	
Recreation facilities	888,808		891,375	
Bookstore	3,315,282		3,222,903	
Printing services	323,429		318,019	
Field house facilities	454,325		419,165	
Other sources	285,299		543,082	
<i>Total other auxiliary revenues</i>	<b>8,741,631</b>	<b>12,705,616</b>	<b>8,571,776</b>	<b>11,727,587</b>
Land grant revenue	<b>1,616,603</b>	<b>1,616,603</b>	<b>1,505,512</b>	<b>1,505,512</b>
Investment income	<b>1,780,923</b>	<b>2,695,372</b>	<b>2,831,339</b>	<b>8,033,742</b>
<b>Total pledged revenues</b>	<b>\$ 53,936,894</b>	<b>\$ 158,693,646</b>	<b>\$ 52,929,561</b>	<b>\$ 159,083,407</b>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 20 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, and ARM 2-2-298, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage through the state's broker, Willis of Seattle, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature". Accordingly section, 2-9-305, MCA, requires that the state "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

**Buildings and contents** – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, the University has a \$1,000 per occurrence retention.

**General liability and tort claim coverage** – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the state's self-insurance program.

**Self-Funded Programs** – The University's health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that the premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, (for fiscal year 2004), the University's workers' compensation program became self-funded and is provided through membership in the MUS Self Insured Workers' Compensation Program. In fiscal year 2003 the University's workers' compensation coverage was provided for through participation in the state's Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Intermountain Claims, Inc.. The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2008, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June 2008	Funding Source
Skaggs Building Addition	\$ 14,355,896	\$ 14,351,935	2004 Series I Revenue Bonds, Donations, Grants
Chemistry Building Renovation	825,000	824,942	General Operating and Plant Funds, Donations
Journalism Building	12,050,000	11,018,677	Intercap Loan, Donations and Plant Funds
Law School Expansion	14,900,000	2,114,048	Donations
Research Facility	14,725,979	9,319,207	2005 Series J Revenue Bonds
MGMB & Petroleum Building	17,400,000	3,012,736	Long Range Building Plan and Plant Funds
Data Center Remodel Project	481,841	58,487	Student Fees, Plant Funds
One Stop Shopping Project	149,500	4,019	Plant Funds
PE complex Electrical	400,000	5,090	Intercap Loan, Institutional
Auxiliary Steamline	1,795,000	1,193,309	2005 Series J Revenue Bonds
Upgrade Boiler Controls	253,795	250,496	General Operating and Plant Funds
Curry Health Center HVAC	589,468	583,729	Auxiliary, Plant, and Designated Funds
COT Futures Park	135,000	121,770	Research & Development
Science Complex Network Maintenance	238,000	138,322	Technology Fees
Health & Human Performance Lab Add	1,483,407	1,407,275	Grant, State
Phylis J Washington Education Center	11,533,709	642,021	Donations, State, Series I Deferred Maint, Aux, Plant
Avian Research Center	677,000	609,911	Designated, Series J
Washington-Grizzly Stadium East Expansion	6,750,000	4,090,173	State, Plant, Donations
	<u>\$98,743,595</u>	<u>\$ 49,746,147</u>	

Operating leases – The University has commitments under non-cancelable operating leases as follows:

Payable during the year ending June 30,	Total
2009	\$ 84,826
2010	59,720
2011	52,674
2012	37,624
2013	10,338
	<u>\$ 245,182</u>

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various federal and state agencies. These funds are subject to review and audit by the cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 22– RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, the Montana Tech Alumni Association and the University of Montana – Western Booster Club.

The associations and booster clubs operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. For the years ended June 30, 2008 and 2007, the following was transferred from or expended by booster clubs for scholarships and construction projects: from the Montana Tech Booster Club \$131,168 and \$68,590, respectively; and \$110,947 and \$57,964 respectively from the University of Montana – Western Booster Club. In exchange, the University provides the associations and booster clubs with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501© 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local “start-up” companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and the University.

### NOTE 23 – ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2008 and 2007, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$ 12,414,618 and \$13,769,372, respectively with The University of Montana Foundation (406-243-2593), \$2,057,627 and \$1,406,888, respectively with the Montana Tech Foundation (406-496-4532); and \$413,574 and \$315,428 respectively with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,257,065 and \$1,193,880 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2008 and 2007, respectively. For the fiscal years ended June 30, 2008 and 2007, the University foundations also expended \$6.0 million and \$5.5 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal years ended June 30, 2008 and 2007, the University provided \$481,600 and \$371,500, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

Condensed financial information for each of the University's component units is presented below. The information for The University of Montana – Western Foundation is as of December 31, for the years presented. The financial information for all the other component units is as of June 30, for the years presented.

## Notes to the Consolidated Financial Statements (continued)

STATEMENT OF FINANCIAL POSITION  
June 30, 2008 and December 31, 2007

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$ 158,719,279	\$ 27,333,147	\$ 4,547,482	\$ 2,279,562	\$(1,291,363)	\$ 191,588,107
Other receivables, net of allowances	23,042,488	1,235,216	2,280	72,761	-	24,352,745
Fixed assets, net of depreciation	4,171,753	175,112	-	4,874	-	4,351,739
Other assets	526,760	4,332	-	135,198	-	666,290
	<u>\$ 186,460,280</u>	<u>\$ 28,747,807</u>	<u>\$ 4,549,762</u>	<u>\$ 2,492,395</u>	<u>\$(1,291,363)</u>	<u>\$ 220,958,881</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 483,605	\$ 44,762	\$ 17,238	\$ 12,320	-	\$ 557,925
Note payable – other	213,842	101,496	40,000	-	-	355,338
Long-term liabilities - other	172,980	78,113	-	343,098	-	516,078
Liabilities to external beneficiaries	2,799,362	-	-	-	-	2,877,475
Custodial funds	22,279,840	-	-	-	(1,291,363)	20,988,477
	<u>25,949,629</u>	<u>224,371</u>	<u>57,238</u>	<u>355,418</u>	<u>(1,291,363)</u>	<u>25,295,293</u>
Net assets – unrestricted	6,561,957	3,314,075	282,292	1,063,895	-	11,222,219
Net assets – restricted	153,948,694	25,209,361	4,210,232	1,073,082	-	184,441,369
	<u>160,510,651</u>	<u>28,523,436</u>	<u>4,492,524</u>	<u>2,136,977</u>	<u>-</u>	<u>195,663,588</u>
	<u>\$ 186,460,280</u>	<u>\$ 28,747,807</u>	<u>\$ 4,549,762</u>	<u>\$ 2,492,395</u>	<u>\$(1,291,363)</u>	<u>\$ 220,958,881</u>

\* For the year ended June 30, 2008. UM Foundation restated for errors to discounts on pledges receivable.

\*\* For the year ended December 31, 2007

STATEMENT OF FINANCIAL POSITION  
June 30, 2007 and December 31, 2006

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$ 161,413,732	\$ 27,940,116	\$ 4,294,203	\$ 1,919,732	\$(1,160,442)	\$194,407,341
Other receivables, net of allowances	13,823,311	1,624,575	3,190	86,541	-	15,537,617
Fixed assets, net of depreciation	4,501,527	202,486	-	5,337	-	4,709,350
Other assets	599,003	5,722	-	102,022	-	706,747
	<u>\$ 180,337,573</u>	<u>\$ 29,772,899</u>	<u>\$ 4,297,393</u>	<u>\$ 2,113,632</u>	<u>\$(1,160,442)</u>	<u>\$215,361,055</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 138,577	\$ 25,667	\$ 14,238	\$ 1,701	\$ -	\$ 180,183
Note payable	338,573	231,300	40,000	-	-	609,873
Long-term liabilities	179,168	-	-	247,319	-	426,487
Liabilities to external beneficiaries	2,904,226	57,453	-	-	-	2,961,679
Custodial funds	24,353,157	-	-	-	(1,160,442)	23,192,715
	<u>27,913,701</u>	<u>314,420</u>	<u>54,238</u>	<u>249,020</u>	<u>(1,160,442)</u>	<u>27,370,937</u>
Net assets – unrestricted	6,720,732	3,236,158	267,574	950,771	-	11,175,235
Net assets – restricted	145,703,140	26,222,321	3,975,581	913,841	-	176,814,883
	<u>152,423,872</u>	<u>29,458,479</u>	<u>4,243,155</u>	<u>1,864,612</u>	<u>-</u>	<u>186,829,676</u>
	<u>\$ 180,337,573</u>	<u>\$ 29,772,899</u>	<u>\$ 4,297,393</u>	<u>\$ 2,113,632</u>	<u>\$(1,160,442)</u>	<u>\$215,361,055</u>

\* For the year ended June 30, 2007. UM Foundation restated for errors to discounts on pledges receivable.

\*\* For the year ended December 31, 2006

## Notes to the Consolidated Financial Statements (continued)

**STATEMENT OF ACTIVITY**  
For the year ended June 30, 2008 and December 31, 2007

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Total
<b>REVENUES</b>					
Contributions	\$ 30,555,514	\$ 3,611,044	\$ 457,452	\$1,496,444	\$ 36,120,454
Investment income and unrealized gain(loss) of investments	(6,643,219)	(1,719,009)	264,837	(38,236)	(8,135,627)
Loss on impairment of asset	(3,568)	-	-	-	(3,568)
Contract for services	400,000	199,711	184,803	540,476	1,324,990
Loss on sale of assets	-	(3,000)	-	-	(3,000)
Other income	830,445	7,874	22,100	-	860,419
	<u>\$ 25,139,172</u>	<u>\$ 2,096,620</u>	<u>\$ 929,192</u>	<u>\$ 1,998,684</u>	<u>\$ 30,163,668</u>
<b>EXPENSES</b>					
Program services	\$ 12,414,618	\$ 2,057,627	\$ 413,574	\$ 1,257,065	\$ 16,142,884
Supporting services	4,296,254	974,036	266,249	469,254	6,005,793
	<u>\$ 16,710,872</u>	<u>\$ 3,031,663</u>	<u>\$ 679,823</u>	<u>\$ 1,726,319</u>	<u>\$ 22,148,677</u>
Change in net assets before non- operating items	\$ 8,428,300	\$ (935,043)	\$ 249,369	\$ 272,365	\$ 8,014,991
<b>NONOPERATING EXPENSES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(341,521)	-	-	-	(341,521)
Change in net assets	8,086,779	(935,043)	249,369	272,365	7,673,470
Net assets, beginning of fiscal year	\$ 152,423,872	\$ 29,458,479	\$ 4,243,155	\$ 1,864,612	\$ 187,990,118
Net assets, end of fiscal year	<u>\$ 160,510,651</u>	<u>\$ 28,523,436</u>	<u>\$ 4,492,524</u>	<u>\$ 2,136,977</u>	<u>\$ 195,663,588</u>

\* For the year ended June 30, 2008. UM Foundation restated for errors to discounts on pledges receivable.

\*\* For the year ended December 31, 2007

**STATEMENT OF ACTIVITY**  
For the year ended June 30, 2007 and December 31, 2006

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Total
<b>REVENUES</b>					
Contributions	\$ 13,885,291	\$ 4,343,065	\$ 551,772	\$ 1,381,127	\$ 20,161,255
Investment income and unrealized gain(loss) of investments	17,775,244	3,834,399	446,249	76,142	22,132,034
Loss on impairment of asset	(166,170)	-	-	-	(166,170)
Contract for services	278,000	222,870	145,405	568,578	1,214,853
Loss on sale of assets	-	(33,500)	-	-	(33,500)
Other income	857,973	2,776	21,900	-	882,649
	<u>\$ 32,630,338</u>	<u>\$ 8,369,610</u>	<u>\$ 1,165,326</u>	<u>\$ 2,025,847</u>	<u>\$ 44,191,121</u>
<b>EXPENSES</b>					
Program services	\$ 13,769,372	\$ 1,406,888	\$ 409,840	\$ 1,193,880	\$ 16,779,980
Supporting services	3,456,529	871,074	302,978	360,457	4,991,038
	<u>\$ 17,225,901</u>	<u>\$ 2,277,962</u>	<u>\$ 712,818</u>	<u>\$ 1,554,337</u>	<u>\$ 21,771,018</u>
Change in net assets before non- operating items	\$ 15,404,437	\$ 6,091,648	\$ 452,508	\$ 471,510	\$ 22,420,103
<b>NONOPERATING REVENUES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(367,646)	-	-	-	(367,646)
Change in net assets	15,036,791	6,091,648	452,508	471,510	22,052,457
Net assets, beginning of fiscal year	\$ 137,387,081	\$ 23,366,831	\$ 3,790,647	\$ 1,393,102	\$ 165,937,661
Net assets, end of fiscal year	<u>\$ 152,423,872</u>	<u>\$ 29,458,479</u>	<u>\$ 4,243,155</u>	<u>\$ 1,864,612</u>	<u>\$ 187,990,118</u>

\* For the year ended June 30, 2007. UM Foundation restated for errors to discounts on pledges receivable.

\*\* For the year ended December 31, 2006

### Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for The University of Montana – Western Foundation are as of December 31, 2007 and 2006. The financial information for all the other component units is as of June 30, 2008 and 2007.

	<b>Fair Market Value</b>	
	<b>2008</b>	<b>2007</b>
<b>Investments held by component units:</b>		
Stocks and bonds	\$ 174,713,565	\$ 181,997,577
Money market and certificates of deposit	1,842,142	1,239,738
Real property	678,426	542,526
Other	843,127	517,510
	<u>\$ 178,077,260</u>	<u>\$ 184,372,351</u>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2008, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 85,311,548	\$ 2,568,121	\$ 7,233,960	\$ 20,967	\$ 500,516	\$ -	\$ -	\$ 95,635,112
Research	33,348,589	313,820	15,383,071	93,228	312,044	-	-	49,450,752
Public service	8,398,017	283,083	4,037,825	-	103,025	-	-	12,821,950
Academic support	19,375,092	670,033	6,752,125	58	369,439	-	-	27,166,747
Student services	14,658,889	739,766	7,985,773	25,648	477,249	-	-	23,887,325
Institutional support	18,300,694	707,089	6,550,994	-	809,238	-	-	26,368,015
Operation and maintenance of plant	11,446,388	1,086,106	7,547,614	6,382,571	94,029	-	-	26,556,708
Scholarships and fellowships	-	-	-	-	-	17,775,884	-	17,775,884
Auxiliary enterprises	21,930,338	983,566	11,938,626	3,635,840	291,624	-	-	38,779,994
Depreciation	-	-	-	-	-	-	16,811,747	16,811,747
	<u>\$ 212,769,555</u>	<u>\$ 7,351,584</u>	<u>\$ 67,429,988</u>	<u>\$ 10,158,312</u>	<u>\$ 2,957,164</u>	<u>\$ 17,775,884</u>	<u>\$ 16,811,747</u>	<u>\$ 335,254,234</u>

\*Other Post Employment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2007, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation		
Instruction	\$ 83,597,918	\$ 6,814,573	\$ 16,655	\$ 465,809	\$ -	\$ -	\$ 90,894,955	
Research	31,831,937	15,771,809	77,266	241,481	-	-	47,922,493	
Public service	8,004,926	3,829,689	525	81,269	-	-	11,916,409	
Academic support	16,140,162	6,174,190	-	308,649	-	-	22,623,001	
Student services	13,158,939	8,478,985	6,554	403,469	-	-	22,047,947	
Institutional support	16,955,670	6,563,329	220	893,578	-	-	24,412,797	
Operation and maintenance of plant	10,387,880	5,605,502	5,500,249	138,962	-	-	21,632,593	
Scholarships and fellowships	-	-	-	-	16,355,573	-	16,355,573	
Auxiliary enterprises	21,097,536	11,007,583	3,315,087	382,714	-	-	35,802,920	
Depreciation	-	-	-	-	-	16,842,365	16,842,365	
	<u>\$ 201,174,968</u>	<u>\$ 64,245,660</u>	<u>\$ 8,916,556</u>	<u>\$ 2,915,931</u>	<u>\$ 16,355,573</u>	<u>\$ 16,842,365</u>	<u>\$ 310,451,053</u>	

**The University of Montana**  
**Supplemental Information - All Campuses**  
**(Unaudited)**

<u>DESCRIPTION</u>	<u>Fall 2007</u>	<u>Fall 2006</u>	<u>Fall 2005</u>	<u>Fall 2004</u>	<u>Fall 2003</u>
Enrollment (Headcount) <sup>1</sup>	18,417	18,383	17,919	17,796	17,595
	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>
Enrollment (FTE) <sup>2</sup>					
Colleges of Technology	2,358	2,121	2,055	1,881	1,905
Undergraduate	12,223	12,167	11,985	12,026	12,149
Graduate	1,837	1,777	1,747	1,765	1,772
Enrollment (FTE) <sup>2</sup>					
In-State students	12,557	12,354	12,215	12,225	12,402
Out-of-State students	2,927	2,732	2,710	2,675	2,699
Western Undergraduate Exchange	934	979	862	772	725
	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>
Employees (FTE) - All Funds <sup>3</sup>					
Contract Faculty	1,033	1,003	993	985	961
Contract Admin & Professional	470	455	386	401	390
Classified	1,317	1,294	1,283	1,275	1,265
GTA/GRA	164	170	173	178	167
Part Time and Other	553	399	403	385	360
	<u>School Year Ended</u>				
	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>
Degrees Granted <sup>4</sup>					
Certificate	177	163	102	76	47
Associate	564	481	478	467	510
Undergraduate	2,183	2,074	2,034	2,192	2,242
Graduate	716	705	711	698	673

<sup>1</sup> Source: MUS Data Warehouse

<sup>2</sup> Source: Internal management reports 2000-2001, CHE Operating Reports 2002-2009

<sup>3</sup> Source: CHE Operating Reports 2000-2009

<sup>4</sup> Source: IPEDS Completion Reports, Fall 2000-2005, internal management reports



The University of  
**Montana**

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The University of Montana  
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15 December 2008

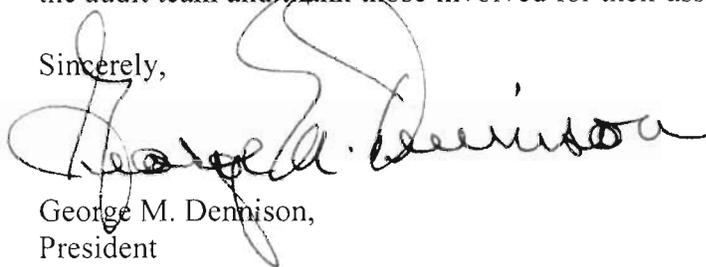
Ms. Tori Hunthausen  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

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Dear Ms. Hunthausen:

We thank the Legislative Audit staff for their professional work on The University of Montana Financial Audit for the year ended 30 June 2008. We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance.

Sincerely,



George M. Demison,  
President

GMD/kc  
Denlet3841

c: S. M. Stearns, Commissioner of Higher Education